MULTIMEDIA UNIVERSITY

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

DCB5214 – COMMERCIAL BANK MANAGEMENT

(All sections / Groups)

8 JULY 2023
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **EIGHT (8)** pages with:
   Section A: Twenty (25) multiple choice questions (50%)
   Section B: Two (2) working problems (50%)

2. Answer **ALL** questions. Marks are shown at the end of each question.

3. Please write all your answers in the MCQ test sheet and Answer Booklet provided.

Section A: 25 Multiple Choice Questions (50 marks)

1. _____ is a rating system used by the Central Bank examiners to evaluate the overall health of a bank.
   a) 6 C's of credit
   b) 5 C's of credit
   c) CAMELS
   d) Credit scoring
   e) Bond rating

2. A 5-Year TM Bond is having a Duration of – 2.77 years. If interest in the market fall to 10 from 12 percent, what happened to the bond's price?
   a) Bond's price will approximately decrease by 4.95 percent.
   b) Bond's price will approximately increase by 4.95 percent
   c) Bond's price will not change because it is not affected.
   d) Bond's price will approximately decrease by 6.95 percent.
   e) Bond's price will approximately increase by 6.95 percent.

3. _____ is the ratio of net income over total equity capital. It represents the rate of return earned on the funds invested in the bank by its stockholders. They expect to earn a suitable profit over the risk of their investment.
   a) Internal rate of return
   b) Return on assets
   c) Current ratio
   d) Return on equity
   e) Inventory turn-over

4. _____is the ratio of net income over total assets. The rate of return secured on a bank's total assets indicates the efficiency of its management in generating net income from all of the resources (assets) committed to the institution.
   a) Internal rate of return
   b) Return on assets
   c) Current ratio
   d) Return on equity
   e) Inventory turn-over

5. Which of the following is (are) the component of return on equity:
   a) Net profit margin only.
   b) Asset utilization only.
   c) Equity multiplier only.
   d) All of the above.
   e) None of the above.

Continued...

6. Which of the following is NOT the purpose of banks having an investment portfolio?
   a) Stabilized the banks' income.
   b) Focusing on long-term profit of financial assets.
   c) Diversification into different localities.
   d) Provide liquidity reserves.
   e) Hedging against interest rates movement.

7. Banks invest in the following for money market investments EXCEPT:
   a) Corporate bonds
   b) Treasury bills
   c) Banker's acceptance
   d) Commercial paper
   e) Negotiable certificates of deposits

8. _____ are loan-backed securities that generate interest and principal income and that income is passed on to the holders of securities representing an interest in the loan pool.
   a) Securitized assets
   b) Illiquid assets
   c) Intangible assets
   d) Callable assets
   e) Structured notes

9. _____ are packaged investments, such as pools of federal agency securities, assembled by security dealers that offer customers flexible yields in order to protect their customers' investments against losses due to changing interest rates.
   a) Securitized assets
   b) Illiquid assets
   c) Intangible assets
   d) Callable assets
   e) Structured notes

10. _____ refers to the impact of credit conditions and the economy, where delinquent loans may rise as borrowers struggle to generate enough cash flow to pay the lender.
   a) Interest rate risk
   b) Liquidity risk
   c) Business risk
   d) Prepayment risk
   e) Inflation risk

Continued...

11. _____ is specific to certain types of investments and focuses on the fact that some loans, which the securities are based on, can be paid off early.
    a) Interest rate risk
    b) Liquidity risk
    c) Business risk
    d) Prepayment risk
    e) Inflation risk

12. _____ involves equally spacing out a bank's security holdings over its preferred maturity range to stabilize investment earnings.
    a) Front-end load maturity strategy
    b) Back-end load maturity strategy
    c) Barbell maturity strategy
    d) Ladder maturity strategy
    e) Rate expectation approach strategy

13. _____ is the most aggressive of all maturity strategies, calls for shifting maturities toward the short end if rates are expected to rise and toward the long-end of the maturity scale if interest rates are expected to fall.
    a) Front-end load maturity strategy
    b) Back-end load maturity strategy
    c) Barbell maturity strategy
    d) Ladder maturity strategy
    e) Rate expectation approach strategy

14. The particular mix of any lending institution's loan portfolio is shaped by the following EXCEPT:
    a) the characteristics of its market area
    b) the income of borrowers
    c) the expected yield and cost associated with each type of loan
    d) size of the lending institution
    e) experience and expertise of the management

15. A good written bank loan policy should contain the following EXCEPT:
    a) the authorities and responsibilities of loaning officers
    b) institution's principal trade area
    c) minimum lending requirement with respect to bank's capital
    d) characteristics and goals of the loan portfolio
    e) minimum acceptable credit ratings

Continued...

16. _____ involves finding out the purpose of credit request by a customer and the intention of the borrower to repay the funds.
    a) Character assessment
    b) Capacity
    c) Cash
    d) Collateral
    e) Control

17. _____ refer to the current economic situations in the borrower's line of work. This is important because the ability of the borrower to generate cash flows may be affected by change in conditions.
    a) Character assessment
    b) Capacity
    c) Condition
    d) Collateral
    e) Control

18. _____ is a process of periodic review of outstanding loans on an institution's books to make sure each loan is paying out as planned, all necessary documentation is present, and the bank's loan officers are following the institution's loan policy.
    a) Loan application
    b) Loan request
    c) Loan soliciting
    d) Problem loan
    e) Loan review

19. The following are the warning signs to management that a problem loan may be developing EXCEPT:
    a) Delays in receiving financial reports
    b) Declining stock prices
    c) Changes in management
    d) No change in credit rating
    e) Continuous decline of profit

20. What steps should a lender go through in trying to resolve a problem loan situation?
    a) The goal of all loan workouts should be to maximize the chances of recovery of funds.
    b) Problems with any loans should be quickly detected and reported.
    c) Loan workout process should be independent of the lending function to avoid any conflict of interest.
    d) All of the above.
    e) None of the above.

Continued...

21. Which of the following is NOT CORRECT about loan review procedure:
    a) The economic condition does not affect the loan review process.
    b) Banks should carry out reviews of all types of loans on a periodic basis.
    c) Banks should review the largest loans most frequently.
    d) Banks should cconduct more frequent reviews of troubled loans.
    e) Loan review schedule should be accelerated during economic slow-down.

22. _____ are short-run credits to fund the current assets of a business, such as accounts receivable, inventories, or to replenish cash.
    a) Inventory loans
    b) Open credit line
    c) Working capital loans
    d) Project loans
    e) Term loans

23. _____ are lines of credit that promise the business borrower access to any amount of borrowed funds up to a specified maximum amount; moreover, the customer may borrow, repay, and borrow again any number of times until the credit line reaches its maturity date.
    a) Open credit line
    b) Revolving credit line
    c) Working capital loans
    d) Project loans
    e) Term loans

24. Which of the following is NOT the principal advantage to a bank in using a credit-scoring system?
    a) It requires less loan officer judgment
    b) It guarantees reduction in loan losses
    c) It can reduce the bank's operating costs
    d) It enables quicker evaluation of loan applications
    e) It can process a large volume of loan applications.

25. _____ measures how a business firm's management keeps a check on its quality by analyzing how carefully it controls its expenses and how well its earnings are likely to be protected and grow.
    a) Liquidity ratios
    b) Profitability ratios
    c) Asset utilization ratios
    d) Leverage ratios
    e) Control over expenses ratios

Continued...

SECTION B (50 Marks)

Question 1 (25 marks)

(a) Since the recent announcement by Central Bank, the top management of DCB Bank have to revise its interest rates that they quoted to the borrower. Suppose a bank estimates that the marginal cost of raising loanable funds to make a RM10 million loan to one of its corporate customers is 4 percent, its non-funds operating costs to evaluate and offer this loan are 0.5 percent, the default-risk premium on the loan is 0.375 percent, a term-risk premium of 0.625 percent is to be added, and the desired profit margin is 0.25 percent. Compute the loan rate that should be quoted to this borrower according to cost-plus pricing model.

(5 marks)

(b) The Greysmith family has applied for a RM50,000 loan for home renovation. John Greysmith and his wife are an accountant since 5 years ago. They have three children. The family own their home, which they purchased six months ago, and have an average credit rating, with some late bill payments. They have a telephone, but hold only a current account with a bank and a few savings bonds. Mr. Greysmith has a RM35,000 life insurance policy with a cash surrender value of RM1,100. Suppose the lender uses the credit scoring system presented below and denies all credit applications scoring fewer than 360 points. Compute the family's credit score and explain whether the Greysmith family will likely to get their loan. (Hint: For the occupation factor take the average for the husband's and wife's occupations.)

Continued...

Factors for Predicting Credit Quality	Point Value
1. Customer's occupation or line of work:	
Professional or business executive	100
Skilled worker	80
Clerical worker	70
Student	50
Unskilled worker	40
Part-time employee	20
2. Housing status:	
Owns home	60
Rents home or apartment	40
Lives with friend or relative	20
3. Credit rating:	
Excellent	100
Average	50
No record	20
Poor	00
4. Length of time in current job:	
More than one year	50
One year or less	20
5. Length of time at current address:	
More than one year	20
One year or less	10
6. Telephone in home or apartment:	
Yes	20
No	00
7. Number of dependents reported by customer:	
None	30
One	30
Two	40
Three	40
More than three	20
8. Deposit accounts held:	
Both checking and savings	40
Savings account only	30
Checking account only	20
None	00

(20 marks)

(TOTAL: 25 MARKS)

Continued…

Question 2 (25 marks)

FANNY Bank received a loan application from Intec Inc. together with the financial statements below.

Intec Inc. Financial Statements for year ending 2022

Business Assets (RM million)		**Annual Revenue and Expense Items (RM million)**	
Cash account	RM70	Net sales	RM600
Accounts receivable	155	Cost of goods sold	445
Inventories	128	Wages and salaries	52
Fixed assets	286	Interest expense	28
Miscellaneous assets	96	Overhead expenses	29
	735	Depreciation expenses	12
Liabilities and Equity		Selling, administrative, and other expenses	28
Short-term debt:	108	Before-tax net income	6
Accounts payable	127	Taxes owed	1
Notes payable	325	After-tax net income	5
Long-term debt (bonds)	15		
Equity capital	160		
	735		

Based on the information above:

(a) Compute FOUR (4) of the company Liquidity Ratios (12 marks)
(b) Compute FOUR (4) of the company Profitability Ratios (12 marks)
(c) Briefly explain whether FANNY Bank should approve or decline the loan requested by Intec Inc. (1 mark)

(TOTAL: 25 MARKS)

End of Page